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DDCI's cy of the SSG mtg on Poland on 28 Dec 81 at  
10:00.

State Dept. review completed

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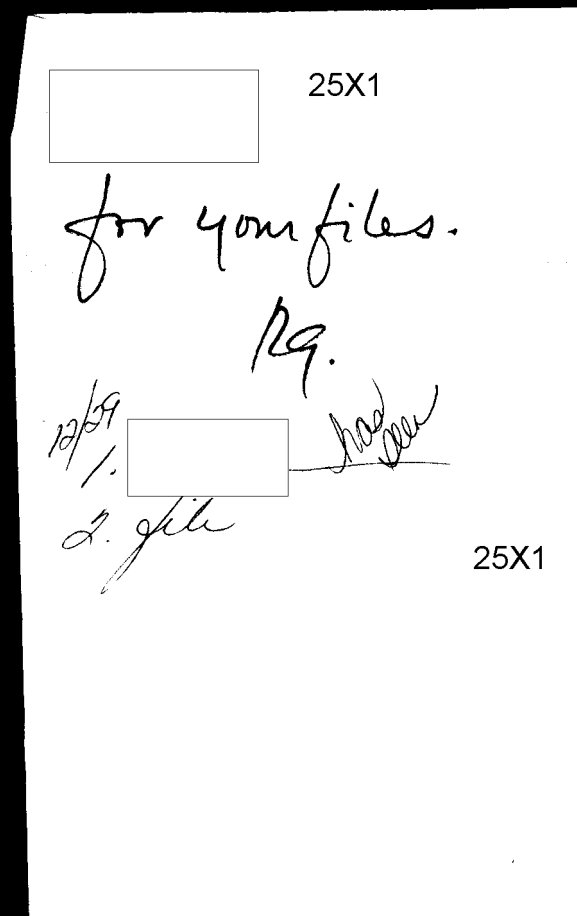
Special Situation Group Meeting  
on Poland

28 December 1981

10:00 a.m.

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C O N F I D E N T I A L TOKYO 23118 COMBINED SECTION

CINCPAC FOR POLAD

E.O. 12065: GDS 12/28/87 (CLARK, WILLIAM) OR-M

TAGS: MARR, MPOL, JA, US

SUBJECT: (U) JFY 82 DEFENSE BUDGET: FINAL DECISION

REFS: (A) TOKYO 23963; (B) TOKYO 22879; (C) TOKYO 22514

1. (C-ENTIRE TEXT).

2. SUMMARY: AFTER INTENSIVE LAST MINUTE LOBBYING BY CHIEF CABINET SECRETARY MIYAZAWA AND LDP DEFENSE LOBBY (NOTABLY FORMER JDA DIRECTOR GENERAL MIHARA) AND STRONG PERSONAL ENDORSEMENT BY PRIME MINISTER SUZUKI, CABINET HAS DECIDED TO INCREASE JFY 82 DEFENSE BUDGET BY 7.754 PERCENT (INCLUDING PERSONNEL COSTS) OVER JFY 81. FINAL DECISION ON 2,586.1 BILLION YEN (11.8 BILLION

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DOLLARS) DEFENSE BUDGET REPRESENTS 31 BILLION YEN (200 MILLION DOLLAR) INCREASE OVER FINANCE MINISTRY'S RECOMMENDATION OF DECEMBER 22 AND ACCOUNTS FOR 0.933 OF THE ESTIMATED FISCAL 1982 GNP. INFLUENTIAL LDP POLITICIANS HAS ADVISED USFJ THAT GOJ DECIDED TO GIVE TOP PRIORITY TO DEFENSE IN UPCOMING BUDGET BECAUSE OF PRIME MINISTER'S VIEW THAT HE HAD TO SIGNAL TO HIGHEST LEVELS OF USG HIS DETERMINATION TO LIVE UP TO PROMISES MADE IN LAST MAY'S JOINT COMMUNIQUE, AS WELL AS HIS CONCERN THAT IF GOJ DID NOT DO ITS BEST THIS YEAR ON DEFENSE, THERE WOULD BE SERIOUS ADVERSE FALL OUT ON BILATERAL TRADE ISSUE.

2. NEGOTIATIONS OVER PAST WEEKEND BETWEEN CABINET AND RANKING LDP POLITICIANS HAVE RESULTED IN GOJ DECISION TO INCREASE DEFENSE SPENDING FOR JFY 82 BY 7.754 PERCENT OVER JFY 81. (GOJ CALCULATES NOMINAL 7.754 PERCENT INCREASE WILL MEAN REAL INCREASE OF 4.62 PERCENT. PRIVATE FORECASTERS GENERALLY SEE A SOMEWHAT HIGHER RATE OF INFLATION NEXT YEAR, SUGGESTING REAL DEFENSE EXPENDITURES GROWTH IN THE 4.0 TO 4.5 PERCENT RANGE.) THE DECISION, TO BE FORMALLY ANNOUNCED AT CABINET MEETING THIS EVENING (DECEMBER 28) WILL MEAN A TOTAL DEFENSE BUDGET OF YEN 2,586.1 BILLION (11.8 BILLION DOLLARS), WHICH INCLUDES AN INCREASE OF 25 PERCENT IN COST-SHARING TO JUST OVER YEN 40.9 BILLION (THE FULL AMOUNT REQUESTED); PURCHASE OF THREE 2,900 TON ESCORT NAVAL VESSELS; PURCHASE OF 23 F15'S AND 7 P3C'S; 12 AHIS COBRA ANTI-TANK HELICOPTERS; AND MODEST INCREASES IN UNIFORMED PERSONNEL LEVELS.

3. THE 7.754 PERCENT INCREASE REPRESENTS:  
--SLIGHTLY MORE THAN THE ORIGINAL 7.5 PERCENT CEILING ESTABLISHED BY THE MINISTRY OF FINANCE LAST SUMMER, AND OVER 1 PERCENT MORE THAN THE 6.5 PERCENT INCREASE ALLOCATED TO JDA BY MOF ON DECEMBER 22, BEFORE "POLITICAL NEGOTIATIONS" BEGAN;  
--SLIGHTLY MORE THAN THE 7.6 PERCENT INCREASE OF THE CURRENT FISCAL YEAR OVER JFY 1980;  
--AN INCREASE RATE HIGHER THAN THE INCREASE RATE OF THE OVERALL GENERAL ACCOUNT BUDGET OF THE GOJ

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FOR THE FIRST TIME IN 26 YEARS;

--A RATE OF INCREASE WHICH REQUIRES APPROXIMATELY ONE-THIRD OF THE 570 BILLION YEN INCREASE IN THE GENERAL EXPENDITURE ACCOUNT (FROM WHICH MINISTERIAL BUDGETS ARE DRAWN) TO BE ALLOCATED TO DEFENSE EXPENDITURES;

--0.933 PERCENT OF GNP, WHICH IS A CHANGE IN THE TENDENCY OF THE PAST FIVE YEARS FOR THAT FIGURE TO HOLD TO 0.9 PERCENT OR DIP BELOW.

--AN INCREASE WHICH IS FAR GREATER THAN THOSE FOR THE OTHER THREE "MAJOR EXPENSES" IN THE BUDGET-- WELFARE (2.8 PERCENT), EDUCATION AND CULTURE (2.6 PERCENT), AND PUBLIC WORKS (0)--AND WHICH SIGNIFICANTLY OUTPACES THE POLITICALLY SENSITIVE WELFARE INCREASE FOR THE FIRST TIME, ALTHOUGH ALL THESE EXPENSES ARE STILL FAR GREATER IN ABSOLUTE TERMS THAN DEFENSE BUDGET.

4. IN SEPARATE DISCUSSIONS WITH DCM MORRIS OF DECEMBER 28, JDA VICE MINISTER HARA AND MOFA DIRECTOR GENERAL OF NORTH AMERICAN AFFAIRS ASAO EMPHASIZED THAT FINAL DEFENSE BUDGET WAS BEST POSSIBLE GIVEN EXTREMELY TIGHT FISCAL RESTRAINTS WHICH ENFORCED A GENERAL "ZERO CEILING" APPROACH. HARA NOTED THAT FINAL OUTCOME WAS RESULT OF WIDESPREAD SUPPORT FOR GREATER DEFENSE SPENDING NOT ONLY IN JDA, BUT IN THE CABINET AS A WHOLE AND IN LDP, AND ASAO SET DECISION IN CONTEXT OF WELL-KNOWN US EXPECTATIONS THAT JAPAN SHOULD INCREASE ITS DEFENSE EFFORTS IN LIGHT OF THE CHANGED INTERNATIONAL SITUATION, AND THE

COMMITMENTS MADE IN THE JOINT COMMUNIQUE ISSUED AT THE REAGAN-SUZUKI SUMMIT LAST MAY. BOTH OFFICIALS ARGUED STRONGLY THAT GOJ HAD DONE ITS UTMOST TO INCREASE DEFENSE, EVEN AT THE EXPENSE OF OTHER MORE POLITICALLY POPULAR BUDGET ITEMS, AND EXPRESSED THE HOPE THAT THE USG WOULD UNDERSTAND THIS.

5. ASAO AND HARA EMPHASIZED GOJ EXPECTATION THAT DEFENSE BUDGET WOULD CONTINUE TO GROW AT INCREASING RATES DURING THE NEXT FEW YEARS, AND

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BEFORE LONGWOULD RESULT IN DEFENSE SPENDING OF MORE THAN 1 PERCENT OF GNP. THEY NOTED THAT DISBURSEMENT AND CONTRACTUAL AUTHORITY FOR MILITARY EQUIPMENT WOULD INCREASE SUBSTANTIALLY IN JFY 82, AND THAT A "GENTLEMEN'S AGREEMENT" HAD BEEN SEALED TO INSURE THAT F15'S AND P3C'S NOT BOUGHT IN JFY 82 WOULD BE ACQUIRED IN JFY 83.

6. COMMENT: EMBASSY BELIEVES GOJ MADE A VERY SIGNIFICANT AND MUCH BETTER-THAN-HOPED FOR EFFORT TO INCREASE DEFENSE SPENDING IN FACE OF IMPOSING FINANCIAL RESTRAINTS, AND THAT RESULT WILL BE COMPARABLE TO DEFENSE INCREASES OF OTHER MAJOR ALLIES. WHILE JAPAN WILL STILL SPEND LESS PER CAPITA ON DEFENSE, STRONG CONSENSUS TO UNDERTAKE SINCERE EFFORT TO MAKE UP FOR LOSS TIME HAS DEVELOPED HERE, PARTICULARLY WITHIN LDP. INFLUENTIAL LDP POLITICIAN TOLD USFJ THAT PM SUZUKI AND CHIEF CABINET SECRETARY MIYAZAWA PLAYED SIGNIFICANT ROLES IN INCREASING JDA BUDGET BY MORE THAN THE 6.5 PERCENT RECOMMENDED BY MOF AND THAT AT LEAST FIVE CABINET MEMBERS BESIDE JDA AND MOFA STRONGLY SUPPORTED GREATER DEFENSE EFFORT, EVEN IF THAT MEANT SACRIFICES BY THEIR PARTICULAR MINISTRIES. PM REPORTEDLY WANTED TO DEMONSTRATE FIDELITY TO JOINT COMMUNIQUE AND PUSHED FOR HIGHER DEFENSE FIGURE ON ADDITIONAL GROUNDS THAT ANYTHING LESS WOULD HAVE ADVERSE EFFECT ON ECONOMIC RELATIONS--A POSITION HE REPORTEDLY WANTS COMMUNICATED TO HIGHEST LEVELS OF USG. ALL THIS PROVIDES SOME REAL BASIS FOR HOPE THAT RESURGENCE OF SIGNIFICANT DEFENSE GROWTH RATES SEEN IN 1970'S MAY OCCUR IN 1980'S. IN THIS REGARD, EMBASSY BELIEVES REMARKS BY HARA AND ASAO (PARA 5) TO DCM INDICATE STRONG GOJ INTENTION TO INCREASE RATE OF INCREASE IN NEXT FEW YEARS. EMBASSY WILL COMMENT SEPTTEL ON HOW BEST WE MIGHT FOSTER THIS TREND. MDO AND DAO WILL BE DOING ADDITIONAL REPORTING ON DETAILS OF DEFENSE BUDGET.

MANSFIELD

END OF MESSAGE

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